

MARKETING MANAGEMENT AND STRATEGY

WEEK 9 DISTRIBUTION STRATEGIES

DR KAMAU JOHN NJAU

SPRING 2024

WEEK 9

DISTRIBUTION STRATEGIES

9.1 Introduction

Welcome to week nine lecture! It is my joy to have you in this class. We are now addressing the last P of marketing mix, the place or distribution. Distribution is a core function of marketing whose knowledge is not borrowed from any other discipline of study. It entails how good move from the manufacturer to the consumer. In this lecture we will examine the meaning of distribution, its core functions in the marketing process, various distribution channels and strategies employed by marketers.

9.2 Intended Learning Outcomes

At the end of this lecture, you will be able to:

1. Define distribution (place) in marketing
2. Describe various intermediaries and their function
3. Discuss factors considered in selecting the channels of distribution
4. Discuss three intensity of distribution strategies available to marketing managers;
5. Describe physical distribution/logistics decisions;

Quotes on distribution

1. “By getting into distribution and production, I am actually widening my base.” Ajay Devgan
2. “If you can get just one distribution channel to work, you have a great business. If you try for several but don't nail one, you're finished.” “Most businesses get zero distribution channels to work: poor sales rather than bad product is the most common cause of failure.” Peter Thiel
3. “It's not about in store versus online, or physical versus virtual... business in this century is often but not always about omni-channel distribution and getting leads and sales through a variety of platforms that may include all of the above or unique combinations.” Hendrith Vanlon Smith Jr, CEO of Mayflower-Plymouth.
4. Like most retailers, we don't know exactly where we will land at the end of it but our curiosity and willingness to create will be a guide for us. Jesper Brodin, CEO, Ikea
5. With more [distribution] channels, it's important to have 'must-have' content and brands that cut through the clutter. Thomas O Staggs

9.3 What is the meaning of distribution (place) in marketing?

Distribution is a key element to the product offering of the marketer. It reflects the importance of availability and reliability of supply as buying objectives for the buyer (Webster, 1991). A channel of distribution refers to a set of interdependent entities that are aligned for the purpose of transferring possession of a product from producer to consumer or business user (Marshall and

Johnson (2010). According to El-Ansary et al , (2001). A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption. Similarly, Rosenbloom (2013) views a marketing channel as the external contractual organization that management operates to achieve its distribution objectives. From these definitions we observe that:

- (i) A marketing channel is a set of interdependent organizations: many entities are involved in the business of channel marketing. Each channel member depends on the others to do their jobs.
- (ii) Marketing channel is a process. It is not an event. Distribution frequently takes time to accomplish, and even when a sale is finally made, the relationship with the end-user is usually not over.
- (iii) External: The term external means that the marketing channel exists outside the firm. In other words, it is not part of a firm's internal organizational structure.
- (iv) Contractual: The term contractual organization refers to those firms or parties who are involved in the negotiatory functions as a product or services moves from the producer to its ultimate user.
- (v) Operates: The term operates, is meant to suggest involvement by management in the affairs of the channel. This involvement may range from the initial development of channel structure all the way to day-to-day management of the channel.
- (vi) Distribution objective: The term distribution objectives means that management has certain distribution goals in mind. The marketing channel exists as a means for reaching these.
- (vii) The purpose of the marketing channel is making a product or service available for use or consumption.

9.4 Marketing channel strategy and logistics management

Marketing channel strategy is one of the major strategic areas of marketing management, that fits under the distribution, variable in the marketing mix. Management must develop and operate the external contractual organization (the marketing channel) in such away as to support and enhance the other strategic variables of the marketing mix to meet the demands of the firm's target markets. Due to inability of the other strategic variables of the marketing mix (i.e ability to be imitated easily) companies are resorting to marketing channel strategy because of its inability to be imitated in the short run.

Rosenbloom (2013) further notes that both channel strategy and logistics management fits under the distribution variable of the marketing mix and that the two components (channel strategy and logistics management) together comprise the distribution variable of the marketing mix. Channel strategy and logistics management are closely related but channel strategy is a much broader and more basic component than is logistics management. Channel strategy is concerned with the entire process of setting up and operating the contractual organization that is responsible for meeting the

firm's distribution objectives. Logistics management, on the other hand, is more narrowly focused on product availability at the appropriate times and places in the marketing channel. Usually, channel strategy must be formulated before logistics management can even be considered.

9.5 Participant in distribution management (marketing intermediaries) and their functions

there are a variety of distributors that facilitate movement of goods from manufacturer to consumers. These include wholesalers, retailers, agents, and brokers among others. In this section we evaluate the role of these marketing intermediaries (Rosenboom 2013):

(i) Wholesale intermediaries

These are companies that are engaged largely in buying, taking title to, storing and physically handling products in relatively large quantities and then reselling them in small quantities to retailers, industrial, commercial, institutions and other wholesalers. They go under many different names such as wholesalers, jobbers, distributors, industrial distributors etc. In Kenya the term commonly used is the wholesaler and they are found in every small and large town. They serve producers as well as retailers and other customers. The task performed by wholesalers to producers as well as to customers are summarized in Table 9.1.

Table 9.1 Tasks performed by wholesalers.

Task	Explanation
<i>Task performed to producers/manufacturers</i>	
Market coverage	Ensuring goods are made available to customers who are spread over large geographical areas.
Making Sales	This helps to reduce cost of employing salespeople to cover large geographical areas
Holding inventory	Wholesalers reduce the producer's financial burden and producers' risks associated with holding large inventories.
Order processing	Wholesalers, are equipped to handle small orders, from many customers which would be too challenging for producers
Marketing information	Wholesalers learn about customers' product and service requirements and pass information to producers who use it for product planning strategies
Physical distribution	This is the transportation and storage of products as they move from the producer to the consumer.
Demand stimulation	Wholesalers stimulate demand by engaging in personal selling, advertising, sales promotion, publicity, direct marketing, and public relations etc.
Customer support	Customers require support in installation, repairs, maintenance, servicing, setting up displays or technical assistance easily offered by wholesalers.
<i>Tasks performed to customer</i>	

Product availability	They ensure producer's products are available to customers which many producers cannot easily ensure.
Customer service	Making services such as delivery, installation, repair and maintenance, display set up and warranty available to their customers saving them effort and expense.
Credit assistance	Wholesalers provide these through extending credit to customers on products sold reducing financial burden to customers
Assortment convenience	The wholesaler's ability to bring together from a variety of producers an assortment of products, greatly simplifying customer's ordering tasks
Bulk breaking	The wholesaler's ability to bring together from a variety of producers an assortment of products, greatly simplifying customer's ordering tasks
Building bulk	The wholesaler buys from different producers and combines the units suitable for resale eg marketing of agricultural products
Advice & technical support	Wholesalers through a well-trained sale force provide this kind of technical and business assistance to customers.

Source: Adopted from Rosenbloom (2013)

(ii) Retail intermediaries

Retailers consist of business firms engaged primarily in selling merchandise for personal or household consumption and rendering services incidental to the sales of goods (Rosenbloom, 2013). Examples of retailers include the supermarkets, kiosks, hawkers, butcheries, fuel stations, bookshops, hotels, chemists, banks, shops, auto dealers, cloth stores, jewelry stores, gift shops, shoe stores, furniture stores, music stores, and hair saloons among others. Tasks performed by retailers are summarized in Table 9.2

Table 9.2 Retailers' distribution tasks

Task	Explanation
Manpower and physical facilities	By offering these, they enable producers and wholesalers to have many points of contact with consumers close to their places of residences.
Demand stimulation	They do this by providing personal selling, advertising and display that aid in selling suppliers products.
Market information	They do this by providing personal selling, advertising and display that aid in selling suppliers products.
Bulk breaking	Retailers divide large quantities into consumer-size lots thereby providing economies for suppliers and convenience for consumers.
Transportation	Transportation creates place utility by ensuring that products are available where they are needed.

Storage	By retailers offering storage facilities suppliers can have widely dispersed inventories of their products at low cost
Credit and financial aid	Retailers provide credit to final consumer by allowing them to buy on credit. This
Risk taking	Retailers remove substantial risk from the producer (or wholesaler) by ordering and accepting delivery in advance of the season.

Source: Adopted from Rosenbloom (2013)

(iii) Agent, brokers, and commission intermediaries

They are independent market intermediaries who do not take title to the goods in which they deal with but are actively involved in functions of buying and selling while acting on behalf of their client (Rosenbloom, 2013). They are usually remunerated in the form of commissions on sales or purchases. They have other different names like producer's agents, commission merchants, brokers, selling agents, and import and export agents. They are mainly used in travel, insurance, agriculture, and automobile industries.

A broker in business acts as an intermediary between buyers and sellers, facilitating transactions between parties in exchange for a fee or commission. Brokers operate in various industries, including real estate, finance, insurance, and commodities trading. They typically possess specialized knowledge of the market and provide valuable insights and advice to their clients. Brokers help match buyers with sellers, negotiate terms, and ensure the smooth completion of transactions while adhering to legal and regulatory requirements. Their role is to create efficient markets by bringing together parties with complementary needs and interests.

Agents' intermediary's distribution tasks are summarized in table 9.3

Table 9.3 Agents' intermediary's distribution tasks

Intermediary agents	Tasks performed
Producer's agents/Producer's representatives	They specialize in performing the market coverage and sales contact distribution tasks for producers.
Selling	On top of what producers' agents do, they do marketing coverage, sales contact, order processing, marketing information, product availability and customer service
Brokers	They are go-between or a party that brings buyers and sellers together, and mainly provide marketing information.
Commission agents	Mainly found in agricultural markets and perform tasks such as physical holding of inventory (though not taking title), providing market coverage, sales contact, bulk-breaking, credit and order processing.

Manufacturer's sales branches and offices	Owned and operated by producers. They are physically separated from production facilities. Maily distribute the producer own products at wholesale level.
---	---

Source: Adopted from Rosenbloom (2013)

(iv) Facilitating agencies

These are business companies that assist in the performance of distribution tasks other than buying, selling and transferring title (Rosenbloom, 2013). From the point of view of the marketing manager, they are viewed as subcontractors to whom various distribution tasks can be outsourced. The following are the common types of facilitating agencies as presented in table 9.4.

Table 9.4 Facilitating agencies.

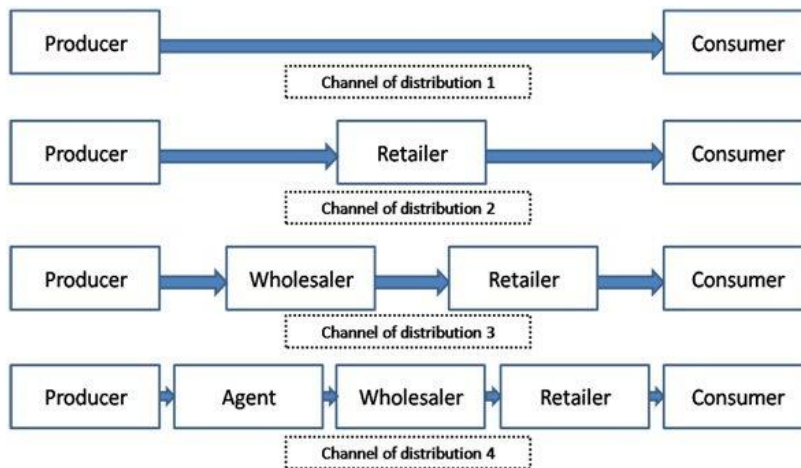
Type of agency	Function
Transportation agencies	They constitute all companies offering transportation services. They perform transportation services far efficiently and effectively than producers, wholesalers or retailers because they deal with many customers.
Storage agencies	They consist mainly of public and private warehouses that specialize in the storage of goods by charging a fee.
Order processing	They are companies that specialize in order fulfillment. For instance, companies, involved in catalog selling have their orders processed by others.
Advertising agencies	They offer the marketing manager expertise in developing advertising strategies.
Financial agencies	They consist of companies such as banks, finance companies and credit card companies. They possess financial resources and expertise that the marketing manager lacks.
Insurance companies	They provide the marketing manager with a means for shifting some of the risks inherent in any business venture such as fire, theft, losses and damage in transit of goods and in some cases even the effects of weather.
Marketing research firms	They provide information when the marketing manager of the firm lacks the necessary skills to obtain marketing information relevant to distribution.

Source: Adopted from Rosenbloom (2013)

9.6 Marketing/Distribution channel level

Marketing channel levels are classified into four main categories as presented in figure 9.1 The producer and the final consumer are part of every channel of distribution. The number of intermediary levels is used here to designate the length of the channel. These levels include the following:

Figure 9.1 levels of distribution



Source: <https://www.mbaskool.com/business-concepts/>

- i. *Producer – Consumer:* This is a zero-level channel or direct marketing channel. It is the shortest channel and involves selling directly to the final consumer. Producers may open their retailing outlets and consumers buy directly from them or they may sell directly to them. The major examples are door-to-door selling, mail order, telemarketing, internet selling, and producer owned stores. Examples of products sold directly to consumers include agricultural products, industrial products, and custom-made products. Selling products directly to consumers is not feasible unless situations where they are buying in large quantities, goods are of very high value, or they are custom made. Most consumers buy in very small quantities particularly in less developing countries where consumer incomes are very low. This makes the use of market intermediaries a feasible alternative.
- ii. *Producer – Retailer – Consumer:* This is a one-level channel and contains one selling intermediary, the retailer. Retailers are those intermediaries who buy from the producer and sell smaller quantities to final consumers. They take title to products and resell them at a profit. Examples of retailers include the supermarkets, local “dukas” or shops and kiosks. Examples of products sold using retailers include agricultural products, fast moving consumer goods and consumer durables.
- iii. *Producer – Wholesaler – Retailer – Consumer:* This is a two-level channel because it contains two intermediaries, the wholesaler and retailer. The wholesaler is market intermediary that buys from producers or other wholesalers and sells mainly to retailers but does not sell in large quantities to final consumers. They take title to the products and resell them for profit. In Kenya it is mostly used in distributing consumer products such as beer, cigarettes, cooking oils and fats, and toothpaste among others. Most agricultural products like bananas, cabbages, tomatoes, onions, oranges, meat and many others find their way through wholesalers.
- iv. *Producer- Agent – Retailer – Consumer:* This is a two level channel because it contains two intermediaries, the agent and retailer. It is mainly used in international trade. The agent is an intermediary that sells on behalf of the principal and does not own the merchandise. The agent

is paid a commission for the services rendered. Agency is also used in insurance, travel and automobile industries.

- v. *Producer – Agent – Wholesaler – Retailer – Consumer*: This is a three-level channel because it contains three intermediaries, the agent, wholesaler and retailer. It is common in international trade. It is also used in distributing locally produced consumer goods. In agricultural marketing wholesalers and retailers engage agents to buy agricultural products in rural areas where they may not be able to penetrate because of lack of knowledge, language barriers and poor roads.

9.7 Electronic channels of distribution

This is the use of the internet to make products and services available so that the target market with access to computers or other enabling technologies can shop and complete the transaction for purchase via interactive electronic means (Rosenbloom, 2013). An electronic marketing channel is the pathway through which businesses promote and sell their products or services using digital technologies. This typically involves utilizing online platforms such as websites, social media, email, mobile apps, and search engines to reach and engage with customers. Electronic marketing channels enable businesses to target specific demographics, personalize messages, track customer behavior, and measure the effectiveness of marketing campaigns in real-time. From the definition we note the following

- A) Available: It does not imply physical availability of the product over the internet. Although some products and services such as printed matter and music can be “digitized” for “delivery” over the internet, most products and services cannot be transported over the internet.
- B) Enabling technologies: This is used to leave the door open to other means besides the PC for accessing the internet, which may emerge in the future. One such device is Web – TV.
- C) Interactive electronic means: The completion of the transaction through interactive electronic means is used to convey the idea of buyer involvement in buying. The buyer orders the product directly without having to use a telephone or other direct means.

Advantages of electronic marketing channel

- Global scope and reach: It offers consumers in many countries around the world who have personal computers and access to the internet the capability to visit any seller’s website and order the merchandise or services offered.
- Convenience/Rapid transaction processing: From the limited empirical research conducted on internet shopping, convenience was the most important reason offered by consumers for shopping on the internet.
- Information processing efficiency and flexibility: From both the customer’s and sellers perspectives, electronic marketing channels provide the potential for great efficiency and flexibility. The most obvious information advantage provided by sellers to customers is the vast array of content on the internet. Hundreds of thousands of websites can be visited, which often provide substantial amounts of information in an attractive and useful format.

- Data-based management and relationships enhancement: The technology underlying customer marketing channels enables firms to target customers efficiently on a large scale as well as down to small niches or micro-segments of a very small group of customers with similar demands. The internet further allows firms to interact with customers and develop customized offers that precisely target specialized customer needs. A further potential advantage of the internet is the ability to track customer visits to the firm's website and develop a continuing dialogue and relationship over time.
- Lower sales and distribution costs: In theory, the use of electronic marketing channels can reduce sales and distribution costs by making it possible to perform distribution tasks more efficiently than through conventional channels. For example, if the internet can provide information needed by customers more cost effectively than say TV or magazine advertisement or face-to-face communication through salespeople, sales costs can be reduced.

Disadvantages of electronic marketing channels

- Lack of contact with actual products and delayed possession: In theory, almost any product and many services can be sold over the internet. But in reality this may not be the case. Consumers have no direct contact with products. They cannot see, touch, feel, smell or try on the actual products sold on the internet. Moreover, products cannot be demonstrated or tried out, which is very important in the case of automobiles, audio-equipment, sporting goods, and many other products categories requiring a relatively high level of contact. Further the atmospherics of shopping in stores that many customers consider an integral part of the shopping experience is missing in cyber space. Finally, the instant gratification of buying the product and then possessing it immediately is not available through electronic marketing channels.
- Fulfillment logistics not at internet speed or efficiency. (Fulfillment and logistics lag): Internet processes and transports electrons not physical products. Hence order fulfillment and logistics must still be performed. Warehouses, inventory, stock picking, order processing, packing and shipping do not simply disappear because consumers use the internet to buy a product rather than telephone. With exception of products that can be "delivered" electronically, many music, written materials, travels and tickets and reservations, and financial investments. The majority of products and many services require logistical fulfillment capabilities that the internet cannot provide.
- Web clutter, confusion and cumbersomeness: With literally hundreds of thousands of sellers at all levels of the channel from manufacturer to retailers having already established websites on the internet and with hundreds more doing so clutter has become a real problem in cyberspace. Consumers face a bewildering array of choices while internet sellers face the difficult task of getting cost in the shuffle. Companies pay huge sales commissions and

advertisements fees to gain place on high traffic websites. In addition to clutter on the internet, searching or “surfing the net” is not always a simple process.

- Ignores personal and social shopping motives: Consumers do not shop simply to make purchases. Rather the desire to make a purchase is just one part of a complex. Set of personal and social motives for shopping. Personal motives for shopping include the need to play the role of shopper, diversion from the routine of daily life, self-gratification, learning about new trends, physical activity and sensory stimulation. Social motives for shopping include gaining social experiences, outside from the home, communication with others having similar interests, peer groups, attraction, status and authority and for some shopper the pleasure of bargaining. Thus, marketing channel that claim to offer consumers the convenience of shopping ignores or fail to satisfy most of the consumer’s motives for shopping.
- Security concerns of customers: Concerns about the security of shopping on the internet take two basic forms.
 - a) Buying products from unknown firms that exist only in cyberspace. This concern is largely remedied as consumers become familiar with more on-line firms and sort of those that they are comfortable working with ethers deal only with well-known firms on the internet.
 - b) Consumer discomfort with sending credit card number over the internet. In USA 70% of people who have net as yet made online purchase express such concern. Even consumers who have already bought products on the internet are not completely comfortable with security measures. This fear presents a barrier to the growth of electronic marketing channels.

9.8 Distribution strategies

Firms employ various distribution strategies to ensure their products reach customers efficiently. Here are a few common ones:

- i) *Intensive Distribution:* This strategy aims to make a product available in as many outlets as possible. It's often used for products with high demand and low consumer involvement, like convenience goods.
- ii) *Selective Distribution:* With this strategy, firms choose a limited number of outlets to distribute their products. It's common for products that require special handling, like electronics or luxury goods.
- iii) *Exclusive Distribution:* Here, firms grant exclusive rights to specific distributors or retailers to sell their products. This is typical for high-end products or brands that want to maintain a certain image and control over pricing and distribution.
- iv) *Direct Distribution:* In this approach, firms sell products directly to consumers without intermediaries. This can be through company-owned stores, websites, or direct sales representatives.

- v) *Online Distribution:* With the rise of e-commerce, many firms adopt online distribution strategies, leveraging websites, online marketplaces, and social media platforms to sell products directly to consumers or through intermediaries.
- vi) *Dual Distribution:* Some firms employ both direct and indirect distribution channels simultaneously. This strategy allows them to reach different customer segments or geographical areas effectively. For example, a company might sell its products directly to consumers online while also distributing through retail stores or wholesalers.
- vii) *Franchising:* Franchising is a distribution strategy where a firm (the franchisor) grants the right to another party (the franchisee) to use its business model, brand, and processes in exchange for fees and royalties. This strategy enables rapid expansion while leveraging the local knowledge and resources of franchisees.
- viii) *Reverse Logistics:* In addition to traditional distribution strategies focused on getting products to consumers, firms also consider reverse logistics, which involves managing product returns, exchanges, and recycling. Effective reverse logistics can enhance customer satisfaction and reduce waste.

Overall, firms choose distribution strategies based on their specific goals, market conditions, competitive landscape, and available resources, aiming to balance efficiency, control, and customer reach.

9.9 Physical Distribution (Logistics management)

Berman and Evans (1992) notes that physical distribution encompasses the broad range of activities concerned with efficiently delivering raw materials, parts, semi-finished items, and finished products to designated places, and in proper times, and in proper condition. It may be undertaken by any member of a channel from producer to consumer. Assael (1990) observes that physical distribution involves all activities involved in moving goods from where they are produced to where they are purchased or consumed. This involves order processing, merchandise handling, inventory management, storage, packaging and transportation functions.

Kotler and Keller (2006) notes that, physical distribution planning involves the following stages:

- (i) Deciding on the company's value proposition to its customers. For instance, what on time delivery standard should be offered? What levels should be attained in ordering and billing accuracy?
- (ii) Deciding on the best channel of distribution and network strategy for reaching the customers. For instance, should the company serve customers directly or through intermediaries? What products should it source from which manufacturing facilities? How many warehouses should it maintain and where should it be located?
- (iii) Developing operational excellence in sales forecasting, warehouse management, transportation management, and materials management.
- (iv) Implementing the solution with the best information systems, equipment, policies and procedures.

The importance of physical distribution

Physical distribution is significant because of the following reasons:

- a) High costs: It constitutes one of the highest costs of marketing a product. Transport accounts for over half of logistics costs (Berman & Evans, 1992). To contain logistics costs, companies are working hard to improve efficiency. Greater computerization and improved transportation have reduced the inventory levels thus saving on other types of distribution costs such as warehousing and interest expenses.
- b) Customer service: The level of customer service that should be provided is a major consideration in a firm's physical distribution program. The major decisions made here include delivery frequency, speed and consistency, emergency shipment policies; whether to accept small customer order among others. Poor performance in any of these areas may result in lost customers. Thus distribution standards (clear and measurable goals regarding service levels in physical distribution) must be developed.
- c) Physical distribution and other functional areas: There is an interface between physical distribution and every aspect of marketing as well as other functional areas within the firm. Product differentiation (variations in color, size, features, quality, and style) poses a burden on a firm's distribution facilities. Greater variety means lower volume per item, which increases unit shipping and warehousing costs.
- d) Creation of time, place and possession utility and distribution efficiency: Physical distribution plays central role in creating time, place and possession utility and in achieving distribution efficiencies. For many industrial buyers, the starting point in selecting a supplier is not identifying the lowest price, but the company offering the best delivery and service delivery.
- e) Helps to avoid stock outs due to poor inventory or delivery: Physical distribution is also important to marketers of consumer goods who cannot afford to the risk of running out of stock due to poor inventory control or delivery. Consumers are becoming less brand loyal and when they find their preferred brand out of stock, are increasingly likely to buy an alternative product.
- f) Gaining competitive advantage: Physical distribution is an important means of gaining competitive advantage. Transportation facilities ensure on-time deliveries and a high order completion rate. Poor physical distribution leads to competitive disadvantage. Promotional campaign can arouse consumer interest but if they find the product out of stock they will lose interest and sales will fizzle out. Thus even the best advertisement campaign or most aggressive pricing strategy is useless if the company does not have an effective physical distribution system to ensure that the product is available at the right place at the right time.

Major Physical distribution decisions

- Order processing. This relates to decision regarding how orders should be handled. Nowadays, organizations are trying to cut down the order-to-payment cycle. That is, the time that passes between receiving an order, delivering it and receiving the payment.

- Warehousing. This relates to decision on where warehouses should be located, how many and what types of warehouses. Companies have to store finished goods awaiting sale. This is because production and consumption cycles hardly ever correspond. Storage aids in smoothing the discrepancies between production and quantities needed by the market. The firm must decide on the number of storage locations.
- Inventory management. This is concerned with decision on how much stock should be held. Inventory levels represent a major cost. Sales representatives would like their companies to carry enough stock to fill customer orders right away. However, this is not cost effective. Inventory cost increases at an accelerating rate as the customer service level move toward one hundred percent (Kotler & Keller, 2006). Management needs to know how much sales and profits would increase as a result of carrying larger inventories and promising faster order fulfillment and then make the decision.
- Material handling. This is concerned with such decisions as how products (or materials) are to be moved within the warehouse, equipments to be used in the movement and better utilization of employees involved in the process. Rosenbloom (2013) observes that material handling encompasses the range of activities and equipment involved in the placement and movement of products in storage areas. When developing material handling systems Rosenbloom recommends that the following issues are addressed:
 - a) How to minimize the distances products are moved within the warehouse in the course of receiving, storage and shipping.
 - b) What kind of mechanical equipment should be used in handling materials? Equipments such as conveyor belts, cranes and forklifts are used.
 - c) How to make the best use of labor involved in receiving, handling and shipping products
- Packaging. This relates to the decision of ensuring that the package is attractive, easy to handle, stacks up with no problem and takes minimum space in the warehouse or shelves. Packaging and its associated costs are relevant components of the physical distribution system (logistic system). This is because packaging can affect the other components of the system. The components of the system will also affect packaging. Effective packaging also helps to control inventory carrying costs as well as reducing product damage.
- Transportation. This entails the decision regarding how goods should be shipped. Marketers also need to be concerned with transportation decisions. Transportation choices will affect product pricing, on-time delivery performance and the condition of goods when they arrive, all of which affect customer satisfaction (Kotler & Armstrong, 2006). In shipping goods to its warehouses, dealers, and customers, the company can choose among five modes of transportation: rail, air, truck, waterway, and pipeline. Digital products (e.g. music, books, newspapers, news, education etc) are transported using the internet. Shippers consider such criteria as speed, frequency, dependability, capability, availability, traceability and cost.

Physical distribution evaluation and control

After making decisions regarding order processing, storage, inventory management, material handling, packaging and transportation, the company must evaluate its performance on these activities. Control requires comparing performance with physical distribution objectives. Assael (1990) observes that the key indicators of performance are:

- The amount of time it takes to process an order.
- The amount of time it takes to deliver an order.
- The proportion of items that arrive undamaged
- The amount of time products are in inventory
- The proportion of times items arrive on time

Inability to meet objectives based on these criteria could spell problems for the company's distribution system. This would warrant examination of each of the activities in the system.

Trends in distribution management

The following are some of the major trends in the distribution management.

- (i) Growth in vertical marketing systems (VMS): Kotler and Armstrong (2006) notes that vertical marketing system is a distribution channel structure in which producers, wholesalers and resellers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate.
 - a) The first case is called corporate VMS, where one channel member (producer, wholesaler or retailer) owns the others. In this case channel leadership is established through common ownership. This situation is seen in retail sector where retailers are producing their brands (e.g. Naivas bread, rice, sugar, cakes etc).
 - b) The second case is called contractual VMS and involves independent firms at different levels of production and distribution joining together to obtain more economies or impact than they could achieve alone (Kotler and Armstrong, 2006). An example of this arrangement is franchising (i.e. a channel member, called franchiser links stages in the production-distribution process). Franchise arrangements are found in every industry from hotel, automobile, energy, soft drink to dental services.
 - c) The third case is called administered VMS. It is a vertical marketing system where one channel member acquires channel leadership through size and power. An example is where manufacturers of top brands (Unilever, Bidco, Coca-Cola, EABL, Sara lee etc) get cooperation and support from resellers as a result of their dominant position in the market. Top retailers (Nakumatt and Tuskys) can

get cooperation and support from manufacturers as a result of their dominant positions in the channel of distribution.

Vertical marketing system is a new development in the marketing system. The conventional marketing system was where one or more independent producers, wholesalers and retailers were seeking to maximize their own profits even at the expense of the system as whole. Nowadays there is a lot of cooperation between all the parties in the system.

- (ii) Growth of horizontal marketing system: This is a channel arrangement where two or more companies at one level join together to follow a marketing opportunity (Kotler & Armstrong, 2006). These companies may be competitors or non-competitors and the arrangement could be permanent or temporary or it could involve formation of a new firm. Examples of these arrangements in Kenya include cases where commercial banks are locating their ATMs in supermarkets (e.g. CFC STANBIC ATM is located inside Maasai mall Barclays bank has an ATM inside Karen Nakumatt etc). Globally we have examples of Coca-Cola and Nestle. Coca-Cola uses its extensive distribution system to distribute Nestle coffee brands like Nescafe and Nestea. Also in Kenya Coca-Cola distributes Novida brand on behalf of Schweppes, a British company. EABL also distributes Castle lager on behalf of South Africa Breweries.
- (iii) Multi-channel distribution systems: This is a distribution system in which a single company sets up two or more marketing channels to reach one or more customer segments (Kotler & Armstrong, 2006). It is also called hybrid marketing channel. Many companies use multiple channels to reach different consumer segments. For instance, Coca-Cola uses direct distribution (e.g. for organizations or people having big events), wholesalers (containers), and retailers (supermarkets, kiosks, hawkers etc). Universities are marketing education through central locations (Main campus), town campuses, distance learning, school-based, franchising, electronic learning and host of many other methods.
- (iv) Disintermediation: This is displacing of traditional resellers from the marketing channel by radical new types of intermediaries (Kotler & Armstrong, 2006). This is mainly because of changes in technology and growth of direct and online marketing. Most manufacturers are bypassing retailers and wholesalers and selling directly to buyers. Companies like EABL are now selling their products through telemarketing. If an organization or an individual has a big ceremony that requires a lot of its products all what they have to do is to call the company and the products will be delivered where they are needed. Also new resellers have emerged to displace the traditional ones like kiosks, shops and supermarkets. Examples include those resellers who are dropping merchandise at customers doorstep. In Kenya we have companies like Iceman that deliver beverages at customers' doorstep. Others include petty errands and daily errands delivery and services

9.7 Review Questions

1. Imagine you're a marketing manager for a new consumer electronics company planning to launch your products in a competitive market. How would you utilize the concept of distribution (place) to ensure widespread availability and reliable supply of your products to consumers?
2. You are a consultant advising a well-established retail chain looking to optimize its distribution strategy. How would you differentiate between the roles and functions of wholesale intermediaries and retail intermediaries? Provide specific recommendations on how the retail chain can leverage these intermediary types to improve its overall distribution efficiency.
3. Suppose you are tasked with developing a comprehensive distribution strategy for a startup fashion brand targeting global markets. Explain the significance of logistics management within the broader distribution strategy, and outline the key steps you would take to ensure seamless product availability and transportation across different regions.
4. Imagine you are a marketing manager for a small agricultural products company. How would you utilize the concepts of intensive distribution and selective distribution to reach your target customers effectively?
5. As a business owner considering expanding your operations into international markets, how would you decide between employing a two-level channel (Producer-Agent-Retailer-Consumer) and a three-level channel (Producer-Agent-Wholesaler-Retailer-Consumer) for distributing your products? What factors would influence your decision?
6. Suppose you are tasked with improving the physical distribution system of a retail company. What strategies would you propose to enhance order processing efficiency, reduce warehousing costs, and optimize inventory management while maintaining high levels of customer service?

Self-test

1. What does the term "distribution (place)" refer to in marketing?
 - a) The process of delivering products from the manufacturer to the consumer
 - b) The location where products are manufactured
 - c) The demographic distribution of consumers
 - d) The pricing strategy for products in different regions
2. According to El-Ansary (2001), what defines a marketing channel?
 - a) A single organization responsible for product delivery
 - b) A set of independent entities involved in product availability
 - c) A contractual agreement between producers and consumers
 - d) A geographic area where products are distributed
3. Which term best describes the role of wholesalers in distribution management?
 - a) Direct sellers
 - b) Product manufacturers
 - c) Bulk buyers
 - d) End consumers

4. What is the primary focus of logistics management in distribution?
 - a) Setting up contractual agreements
 - b) Product availability and transportation
 - c) Marketing strategy formulation
 - d) Sales promotion and advertising

5. What function do agents, brokers, and commission intermediaries primarily perform?
 - a) Direct selling to end consumers
 - b) Buying and storing products in large quantities
 - c) Negotiating contracts between producers and retailers
 - d) Facilitating buying and selling transactions without taking title to goods

6. What is the primary characteristic of a zero-level channel in distribution?
 - A) It involves only one intermediary between the producer and the consumer.
 - B) It contains two intermediaries: a wholesaler and a retailer.
 - C) It is the shortest channel and involves direct selling to the final consumer.
 - D) It includes agents who sell products on behalf of the producer.

7. In a two-level distribution channel, what is the role of the wholesaler?
 - A) Selling directly to the final consumer.
 - B) Buying from producers and selling mainly to retailers.
 - C) Acting as an intermediary between the agent and the retailer.
 - D) Owning the merchandise and selling it for a commission.

8. What distinguishes electronic marketing channels from traditional distribution channels?
 - A) They rely solely on physical stores for sales.
 - B) They involve face-to-face interactions with customers.
 - C) They utilize digital technologies to reach and engage with customers.
 - D) They prioritize personal and social shopping motives over convenience.

9. Which advantage of electronic marketing channels is NOT mentioned in the text?
 - A) Lower sales and distribution costs.
 - B) Enhanced security measures for online transactions.
 - C) Global scope and reach, targeting consumers worldwide.
 - D) Information processing efficiency and flexibility.

10. What is a key indicator of performance in physical distribution evaluation?
 - A) The variety of products offered by the company.
 - B) The level of customer service provided by the company.
 - C) The proportion of times items arrive on time.
 - D) The amount of money spent on advertising and promotion.

Marketing Management Project

Part 8

This week we focus on distribution strategies employed by the firm we have been studying

Tasks

- a) Identify the distribution channel employed by the firm.
- b) Determine the distribution strategy used.
- c) Explain how this can be improved and justify responses.
- d) Comment on how the firm carries out logistics management and show this can be **improved.**

References

- Assael H (1990) Marketing: Principles and Strategy, Chicago : Dryden Press
- Berman B, & Evans J. R (1992). Retail Management: A Strategic Approach 5th Edition , Macmillan.
- Coughlan, A. T., Anderson, E., Stern, L., & El-Ansary, A. (2001). Marketing Channels. New Jersey: Prentice Hall Upper Saddle River.
- Kotler P. & Armstrong G. (2006). Principles of marketing, (11th Ed.) Upper Saddle River: New Jersey: Prentice-Hall
- Marketing channel level: <https://www.mbaskool.com/business-concepts/>
- Marshall G. W & Johnson M.W (2010) Marketing Management McGraw Hill Irwin
- Rosenbloom B (2013) Marketing Channels management South-Western, Cengage Learning
- Webster J. and Fredric E (1991) Industrial marketing, John Wiley et sons ltd.

Answers to self-test evaluations

1. The process of delivering products from the manufacturer to the consumer
2. A set of independent entities involved in product availability
3. Bulk buyers
4. Product availability and transportation
5. Facilitating buying and selling transactions without taking title to goods
6. It is the shortest channel and involves direct selling to the final consumer.
7. Buying from producers and selling mainly to retailers.
8. They utilize digital technologies to reach and engage with customers.
9. Enhanced security measures for online transactions.
10. The proportion of times items arrive on time.